

## II Year-end Closing - Year-end Adjusting Entries

The timely completion of Fiscal Month 12 (June) activities is important to the beginning of the year-end process. This chapter describes the process for recording and reconciling June transactions and preparing year-end adjusting entries.

**IMPORTANT:** Use the *new year* Organization Control (OC) Table to run automated CALSTARS processes for June (FM12). The *new year* OC Table must be established by July 1.

### COMPLETE JUNE TRANSACTIONS AND RECONCILE

June transactions may be posted to FM 12 after June 30<sup>th</sup>, however, FM 12 is closed after July 31 and no longer available. Therefore, June activities should be completed and reconciled as soon as possible.

### New Year Transactions

Accounting transactions to load *new year* appropriations, allotments, budget plans, encumbrances, etc., may be entered into CALSTARS beginning on July 1. All *new year* transactions should be coded as Fiscal Month 01.

### Run FM 12 Labor Distribution

Using the *new year* OC Table, agencies should run FM 12 Labor Distribution as soon as they are ready after the SCO payroll tape is available.

### Run FM 12 Cost Allocation/Fund Split

Using the *new year* OC Table, agencies should run FM 12 Cost Allocation/Fund Split as soon as they are ready.

### Run FM 12 Variance Allocation/Fund Split

Using the *new year* OC table, agencies should run Variance Allocation/Fund Split (if applicable) as early as possible.

### Close FM 12

FM 12 should be closed after all June activity is complete. June reports need to be requested and June reconciliations need to be completed. The SCO normally completes the Fund and Agency Reconciliation Reports a few days after June 30. As soon as CALSTARS receives these reports from the SCO, they are loaded to agency ROPES queues for printing. Review these reports to ensure that all SCO activity has been received and recorded to prevent reconciling items.

### USE OF FISCAL MONTH 13 FOR YEAR-END ADJUSTMENTS

A number of accrual entries must be recorded in CALSTARS to accurately reflect the financial position of the agency. These entries usually bring the accounting records into conformance with Generally Accepted Accounting Principles (GAAP). All year-end adjusting entries are entered in Fiscal Month 13.

### Use of the Automated Accrual Reversal Process

As described later in this chapter, some year-end adjusting entries are reversed in the new year. Agencies have the option of having their Fiscal Month 13 adjusting and/or reclassification entries reversed automatically when Year-end Open (OC Table Run YEC Indicator set to **E**) is run or manually recording the reversal batches. Exhibit II-1 illustrates the automated accrual reversal process. This process is optional; however, the decision to use it must be made prior to preparing the adjusting entry batches. Specific batching rules must be followed as explained below. This process is only intended for the reversal of those year-end adjusting and reclassification entries that are specifically identified to be reversed in the new year.

### Coding FM 13 Adjusting Entry/Reclassification Batches For Automatic Reversal

Fiscal Month 13 adjusting entry and reclassification batches must be coded as follows in order to be included in the automated reversal process:

- ✧ The Batch Type must be **00** (zero zero);
- ✧ The Batch Number must be an alpha-numeric combination within the range **A01 - A99**;
- ✧ The Batch Date and Batch Number combination must be unique (i.e., the same Batch Date/Batch Number combination cannot be re-used); and
- ✧ The batch must be recorded in Fiscal Month 13 (**FM 13**).

If the input batch does not meet all of these conditions, the 'B22-FM/BATCH#/TYPE' online error (invalid fiscal month, batch number and/or batch type combination) is generated. **The B22 error must be corrected before releasing the batch for processing. This error is not correctable through error correction after**

**ENTRY A-3: Reimbursement and Abatement Accrual**

The A-3 entry records reimbursements and abatements due to the agency but not yet recorded in CALSTARS. These entries are normally made in CALSTARS throughout the year as invoices are prepared. Any amounts due to the agency at year-end, but not yet recorded, should be accrued using A-3 entries. The transaction codes used to record accruals are the same that are used during the year to establish receivables as abatements or reimbursements.

TC 123 - Record Billing of Accounts Receivable - Abatements <sup>8/</sup>

Dr. 1311 Accounts Receivable - Abatements  
Cr. 9000 Expenditures

TC 122 - Record Billing of Accounts Receivable - Reimbursements

Dr. 1312 Accounts Receivable - Reimbursements  
Cr. 8100 Reimbursements

TC 129 - Record Amount Due From Other Governments as Reimbursements

Dr. 1500 Due From Other Governments  
Cr. 8100 Reimbursements

TC 130 - Record Amount Due From Other Governments as Abatements <sup>8/</sup>

Dr. 1500 Due From Other Governments  
Cr. 9000 Expenditures

TC 174 - Record Amount Due From Other Funds as Reimbursements

Dr. 1400 Due From Other Funds or Appropriations  
Cr. 8100 Reimbursements

TC 175 - Record Amount Due From Other Funds - Abatements <sup>8/</sup>

Dr. 1400 Due From Other Funds or Appropriations  
Cr. 9000 Expenditures

*A-3 entries made at year-end not supported by invoices should be reversed and re-entered as invoices are prepared.*

**NOTE:** Agencies should prepare separate entries to accrue reimbursement receivables resulting from encumbrances. These entries may be useful in identifying the encumbrance amounts to be reported on Report 1, Report of Accruals to Controller's Accounts.

*These entries typically are not supported by invoices and should be reversed in the new year.*

<sup>8/</sup> Abatements require both an object detail and a source code. Transactions are made in the Clearing Account if the original expenditure was made in the Clearing Account.

If reimbursements from another fund or appropriation have been over-collected and the amount of the over-collection will be refunded to the fund or appropriation after June 30, accrue the amount with the following entry:

TC 553 - Accrue Reimbursement Refund from other Funds/Appns  
Dr. 8100 Reimbursements  
Cr. 3110 Due To Other Funds or Appropriations

*This entry must be reversed in the new year.*

Operating transfers from the General Fund to a Special Fund are treated as "Less Funding Provided By" (Negative Expenditures) in the Special Fund. If the operating transfer from the General Fund to a Special Fund has not occurred as of June 30, the operating transfer-in must be accrued in the Special Fund using the following entry:

TC 560 - Accrue YE Transfer-In - Negative Expenditures  
Dr. 1400 Due From Other Funds  
Cr. 9000 Expenditures

*This entry must be reversed in the new year.*

In the new year, when SCO posts the transfer, use TC 242R to record the operating transfer-in into the Special Fund.

#### **ENTRY A-4: Reclassify Items for Reverted Appropriations**

"Accounts Receivable" and "Due Froms" for abatements and reimbursements that are not cleared by June 30 must be reclassified to GLA 1600-Provision for Deferred Receivables. CALSTARS provides an automated process (CFY022 - Document File Reclassification/Liquidation Process) to assist agencies to identify and reclassify documents within reverting appropriations. For reverting appropriations that were correctly identified in the AS Table when the CFY022 transactions were generated in early May, entry A-4 will have been already posted. However, if reverting appropriations were improperly identified in the AS Table, the A-4 entry must be manually posted. These receivables may be identified by reviewing the D06, Document Report by Appropriation.

Agencies should use the following entries to record the A-4 adjusting entry for receivables that CALSTARS did not reclassify. For each receivable post two transactions.

First transaction:

TC 576 - A-4 Establish Accounts Receivable Other-Offset Reverted  
Appropriation - CFY022  
Dr. 1319 Accounts Receivables - Other  
Cr. 1600 Provision for Deferred Receivables

**OR**

TC 577 - A-4 Reclass AR Other-Offset-Revert Neg Doc (CFY022)  
 Dr. 1600 Provision for Deferred Receivables  
 Cr. 1319 Accounts Receivable Other

**NOTE:** TC 576 is for *positive amounts* and must be used with one of the TCs below. TC 577 is for *amounts less than zero*; TCs used with TC 577 must use an **R** Reverse code. Both TC 576 and 577 should be recorded at the fund level only.

Second transaction (one of the following):

TC 555 - A-4 Reclassify Accounts Receivable - Abatements - Revert Appn - CFY022  
 Dr. 9000 Expenditures  
 Cr. 1311 Accounts Receivable - Abatements

TC 556 - A-4 Reclassify Accounts Receivable - Reimbursements - Revert Appn - CFY022  
 Dr. 8100 Reimbursements  
 Cr. 1312 Accounts Receivable - Reimbursements

TC 572 - A-4 Reclassify Abatements Due from Other Funds - Revert Appn - CFY022  
 Dr. 9000 Expenditures  
 Cr. 1400 Due from Other Funds or Appropriations

TC 573 - A-4 Reclassify Reimbursements Due from Other Funds - Revert Appn - CFY022  
 Dr. 8100 Reimbursements  
 Cr. 1400 Due from Other Funds or Appropriation

TC 574 - A-4 Reclassify Abatements Due from Other Governments - Revert Appn - CFY022  
 Dr. 9000 Expenditures  
 Cr. 1500 Due From Other Governments

TC 575 - A-4 Reclassify Reimbursements Due from Other Governments - Revert Appn - CFY022  
 Dr. 8100 Reimbursements  
 Cr. 1500 Due From Other Governments

See Volume 7, Chapter I, Preparation Activities, section *Reclassify/Liquidate Reverting Appropriation Document File Balances*, for procedures on cash collections.

*A-4 entries are **NOT** reversed in the new year.*

### **ENTRY A-5: Accrue Interest Earnings on Investments**

The A-5 entry accrues interest earnings on investments to reflect the appropriate adjustments to accrued interest purchased, premiums, and discounts. Source code

**215n00** is used to identify investment interest earned, where **n** identifies the type of interest (per the *UCM*).

TC 121 - Record Billing of Accounts Receivable-Operating Revenue  
Dr. 1314 Accounts Receivable - Operating Revenue  
Cr. 8000 Revenue

TC 548 - A-5 Record Amortization of Discount on Securities  
Dr. 2014 Discount on Securities  
Cr. 8000 Revenue

TC 549 - A-5 Record Amortization of Premium on Securities  
Dr. 8000 Revenue  
Cr. 2013 Premium on Securities

TC 550 - A-5 Record Amortization of Accrued Interest Purchased  
Dr. 8000 Revenue  
Cr. 1320 Accrued Interest Receivable

*A-5 entries are **NOT** reversed in the new year.*

#### **ENTRY A-6: Record Interest Due From Other Funds**

The A-6 entry accrues interest revenue that is due from other funds. This includes interest income due from inter-fund loans and deposits in the Surplus Money Investment Fund (SMIF). A Source code and a Subsidiary code are required for this entry.

TC 176 - Record Amount Due From Other Funds as Revenue  
Dr. 1400 Due From Other Funds or Appropriations  
Cr. 8000 Revenue

#### **SMIF Interest Due**

Agencies will receive journal entries (JE's) that reflect the SCO's posting of SMIF interest as of June 30. The A-6 entry for interest due from SMIF is posted using information from the JE. (The General Fund share of SMIF interest is not posted on any agency's books.) The interest amount can also be accessed via SCO PROD.

For interest earned on governmental funds use Source code **150300**-Income From Surplus Money Investments. For interest earned on Operating Revenues from proprietary and fiduciary funds use Source code **250300**-Income From Surplus Money Investment Fund. Use Subsidiary code **06810000** in both instances.

*A-6 entries are **NOT** reversed in the new year.*

**Note:** Post the June 30 SMIF Interest Income JE in FM01 using TC 135. This will Credit GLA 1400 and Debit GLA 1140-Cash in State Treasury.

**ENTRY A-7: Abatements for Surveyed Equipment**

The A-7 entry accrues an abatement for the estimated value of surveyed equipment available for sale. This entry is displayed on the CSTARH11 Report, Transaction Analysis Report for Equipment. The A-7 entry is used only if the equipment has been budgeted for replacement. Source code **580600** is used for this abatement.

In the fund which will purchase the new asset, record the following for the amount of the expected sales price:

TC 546 - A-7 Record Abatement for Surveyed Equipment  
Dr. 2740 Inventory of Surveyed Equipment  
Cr. 9000 Expenditures

**NOTE:** The FM 13 reconciliation will be out of balance by the amount of this entry.

In Fund 0997 (and Fund Detail), record the following for the amount of the original purchase price:

TC 494 - Record Write-Off of Non-Expendable Assets  
Dr. 5200 Investment in General Fixed Assets  
Cr. 23nn Fixed Asset Account (nn=10, 21, 31 or 41)

*A-7 entries are reversed in the new year.*

**ENTRY A-8: Accrual of Expenditures**

The A-8 entry accrues expenditures as "Accounts Payable" or "Due To" for goods or services received by June 30 but not scheduled for payment by June 30. This entry is necessary because expenditures are recorded in the fiscal year the goods or services are received, not the fiscal year the invoice is actually paid. A-8 adjusting entries are **not** made for goods or services received after June 30. A-8 entries are usually made in the Clearing Account, if used.

**NOTE:** Personal services incurred as of June 30 that will be paid in the new fiscal year must also be accrued. Agencies using the CALSTARS Labor Distribution Subsystem must record the Personal Services accrual with Document Number/Suffix **PRA99999-99**. Use Object Detail **003** for the last transaction entered.

During the new year, the Labor Distribution Subsystem will liquidate this accrual by posting prior year Personal Services costs (TC 378) to this Document Number/Suffix. This continues each month during labor distribution until the agency closes the document or the OC Table Error Severity Indicator code **F** (Fund Related, position 1, 2 and 3 or 4) disallows posting because no funds are available in the document. The transaction then posts to the Error Suspense File where it may be adjusted by changing TC 378 to TC 242 or TC 372.

**EXCEPTION:** Agencies with Federal grants may need to encumber accruals in lieu of preparing the A-8 entry for Federal expenditures. If accruals are encumbered, they will not show as expenditures on CALSTARS reports used for the monthly Plan of Financial Adjustment (PFA). This will help ensure that expenditures are not overstated when completing the PFA for a Federal drawdown. Use Document Number/Suffix **A8nnnnnnn-nn** for these encumbrances. The encumbrances are shown as GLA 3010 in the Pre-closing and Post-closing Trial Balances on the G02 Report. In order to reflect the correct general ledger liability accounts in CALSTARS (i.e., GLAs 3110, 3210, 3220, or 3290), the encumbrances must be reclassified to the correct account using TC 517 or TC 519. Refer to the *Reclassify Encumbrances Reported As Accounts Payable* section in Chapter III for further instructions. **Do not** report these encumbrance accruals in the "Encumbrance" column on the Report of Accruals to Controller's Accounts, Report 1, Form 571A, B, C, or D.

**NOTE:** The H11 Report for FM 13 reflects accrued expenditures, including Capital Outlay and equipment purchases, at the time the accruals are posted, not when actual payment is made. This may impact the reconciliation of property records.

Exhibit II-7 displays the transaction codes used to establish, liquidate and adjust accounts payable documents. These entries are made only if the goods or services were received by June 30. The *Debit* GLA for each of the TCs in the "Set Up TC" column is GLA 9000-Expenditures. The Credit GLA is shown in the "General Ledger Liability Account" column.

When setting up accounts payables for previously encumbered documents, use of the **F** (Final Payment) Modifier code will liquidate the *entire balance* (plus or minus) in the Document File. Accounts payable documents must be liquidated/adjusted for the *exact amount*. Differences should be adjusted to zero as soon as possible and the document should be closed (Modifier=**C**) to preclude further Document File posting.

See Exhibit II-7 for TCs to use when establishing, liquidating and adjusting accounts payable documents.

*A-8 adjusting entries are **NOT** reversed in the new year, except for entries for estimated accruals.*



EXHIBIT II-7  
A-8 ENTRY TRANSACTION CODES

Vendor Description	Vendor Type	General Ledger Liability Account	Account Title	Previous Status	Transaction Codes						
					Set Up	Payment			Adjustments		
						Auto	Manual	SCO Pay	Incr- ease	Decrease Payable Balance	Correct Overpay- ment of Accrual
Corporation (includes Non-profit Foundation) Individual/Sole Proprietor Partnership Estate or Trust Employee	<b>C  I P E 1</b>	3010	Accounts Payable	Previously Encumbered	214	233	246	248	215	205	498
				<b>Not</b> Previously Encumbered	215	233	246	248	215	205	498
Federal Agency	<b>2</b>	3210	Due to Federal Gov't	Previously Encumbered	208	268	284	263	283	201	283
				<b>Not</b> Previously Encumbered	283	268	284	263	283	201	283
CA State Agencies (includes CSU & CSU Trustees)	<b>3</b>	3110	Due to Other Funds	Previously Encumbered	209	261	203	262	285	204	285
				<b>Not</b> Previously Encumbered	285	261	203	262	285	204	285
Local Government Agencies (Includes Cities and Counties)	<b>4</b>	3220	Due to Local Gov'ts	Previously Encumbered	208	268	284	263	283	201	283
				<b>Not</b> Previously Encumbered	283	268	284	263	283	201	283
Other Governmental Agencies (Includes School Districts, Community Colleges, Regents/UC's and Other State Govts)	<b>5</b>	3290	Due to Other Gov'ts	Previously Encumbered	208	268	284	263	283	201	283
				<b>Not</b> Previously Encumbered	283	268	284	263	283	201	283

TC 552 - Accrue YE Due to Other Govt (Excess Collections)  
 Dr. 8000 Revenue  
 Cr. Input GL (3210, 3220 or 3290)

*TC 552 is reversed in the new year.*

**NOTE:** The liability accrual (GL 3210, 3220 or 3290) is not included on the DB1 report. For reconciliation purposes, the amount of the TC 552 entry must be added to the SCO account balances.

### ENTRY A-10: Adjustment for Dishonored Checks

CALSTARS agencies are required to account for dishonored checks by using transactions to adjust the nominal accounts during the year. Typically, this involves adjusting the nominal accounts by recording transactions to reimburse the bank for the dishonored check and establish a receivable in GLA 1315-Accounts Receivable-Dishonored Checks with an offset to GLA 1600-Provision for Deferred Receivables. At year-end, the A-10 entry is required for the dishonored checks considered to be collectible during the next year. The A-10 entry removes the collectible dishonored checks from GLA 1600 and reflects the amount in the nominal account. See the chart below for the transactions to use for posting the A-10 entry.

A-10 Adjusting Entries			
Account		Description	TC
Debit	Credit		
1600		Provision for Deferred Receivables	
	3110	Due to Other Funds or Appropriations	585
	3400	Advance Collections	586
	3730	Uncleared Collections	587
	8000	Revenue	588
	8100	Reimbursements	589
	9000	Expenditures	590
	9830	Other Sources	578
	9891	Refunds to Reverted Appropriations	591

**NOTE:** If an A-10 adjusting entry is required, the FM 13 reconciliation to SCO balance will not agree by the amount of the A-10 entry, except GLA 3400 and GLA 3730.

*A-10 entries are reversed in the new year.*

### ENTRY A-11: Alternative Adjustment for Dishonored Checks

CALSTARS agencies do not prepare the A-11 adjusting entry. See the A-10 adjusting entry.

### ENTRY A-12: Establish Reserve for Deferred Accounts Receivable for Abatements and Reimbursements

The A-12 entry establishes a reserve for accounts receivable abatements and reimbursements estimated to be uncollectible during the next fiscal year.

**NOTE:** Use Entry A-4 for receivables applicable to reverting appropriations.

TC 513 - A-12 Estab Reserve for Deferred Reimbursements Receivable  
     Dr. 8100 Reimbursements  
         Cr. 1600 Provision for Deferred Receivables

TC 514 - A-12 Estab Reserve for Deferred Abatements Receivable  
     Dr. 9000 Expenditures  
         Cr. 1600 Provision for Deferred Receivables

**NOTE:** If the A-12 adjusting entry is required, FM 13 reconciliation to SCO balances will not agree by the amounts of TC 513 and TC 514 entries.

*A-12 entries are reversed in the new year.*

### ENTRY A-13: Transfer CIST to Fund Balance

Typically, CALSTARS agencies **do not post** the A-13 entry. During the Year-end Closing process, CALSTARS generates the entry to reclassify GLA 1140-Cash in State Treasury to GLA 5570-Fund Balance Clearing for funds identified in the D22 Descriptor Table as *shared* funds. The G02 Post Closing Trial Balance reflects that GLA 1140 has been reclassified to GLA 5570 for *shared* funds. Agencies with *shared* funds should verify the G02 Post Closing Trial Balance reflects that GLA 1140 closed into GLA 5570. If the G02 Post Closing Trial Balance reflects a balance in GLA 1140 for a *shared* fund, then one of the following entries must be posted by the agency. If the G02 Post Closing Trial Balance reflects that GLA 1140 is closed properly to GLA 5570, the agency **does not post** the following entries; CALSTARS will generate the transaction during the automated closing process for *shared* funds.

If Cash in State Treasury has a debit balance:

TC 501 - YEC - To close Debit Balance GLA-Shared Fund  
     Dr. 5570 Fund Balance Clearing Account  
         Cr. (Input 1140) Cash in State Treasury

If Cash in State Treasury has a credit balance:

TC 502 - YEC - To close Credit Balance GLA-Shared Fund  
     Dr. (Input 1140) Cash in State Treasury  
         Cr. 5570 Fund Balance - Clearing Account

**NOTE:** Funds that are identified in the D22 Descriptor Table as *non-shared funds* are not impacted by this entry.

*A-13 entries are **NOT** reversed in the new year.*